

FEDERAL RESERVE BANK OF CHICAGO

REPORT OF BUSINESS CONDITIONS IN THE SEVENTH FEDERAL RESERVE DISTRICT

JUNE 25, 1919

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In view of the gradually expanding industrial activities throughout the country and the rather abnormal requirements in financing the crop movements, both because of the higher prices and the enormous wheat production, Western bankers are watching particularly closely the development of the present speculative movement. At this season of the year bankers in this section are usually cautious in extending loans because of the approach of the harvest with its usual large requirements, and this is especially true this year because they see ahead a strong demand upon the available banking funds.

An Outlet for War Profits.

There is an element, however, that is taking a decidedly opposite view of the situation, made up chiefly of those who have amassed enormous profits out of the war-time demands during the last few years, and, having accumulated wealth rapidly, appear to be anxious to turn over their fortunes speedily in speculative ventures. This element of newly-made rich for some time has been quietly seeking employment for its funds; and as ordinary business profits recede with the subsidence of the war demands and the continuation of high costs of labor and material, it turns to the stock market and other phases of speculation.

A Study of "Call Loans."

The security market activity of the last month or two has been closely scrutinized by bankers with a view of determining just where the money that was represented in this activity is coming from. So far as careful inquiry discloses, the banks in the Seventh Federal Reserve District have participated directly in Wall Street loans to a very limited extent. There are a few Middle West banks which always carry considerable balances in New York and, from time to time, loan some of these funds on call in the stock market; but these balances and the Wall Street loans, with two exceptions, are not larger than usual, and in some instances are actually smaller than in normal years at this season. Practically none of the member-bank borrowing on the United States securities at the Federal Reserve Bank has found its way into the stock market, as far as they can be traced.

Investment Buying of Stocks.

There are indications that considerable Western money has gone into the stock market, but it is the money of the individual who is investing his profits of the last few years. The furries in interest rates in Wall Street apparently served only to cause these new speculators to check against their deposit accounts and take up the stocks, with the result that the floating supply of available stocks in the market is curtailed, which necessarily makes a further advance easier.

One of the contributing features tending to produce a scarcity of available stocks is the attitude of the investor, who during the period of actual hostilities bought shares at low prices but hesitates to sell at the present level and "take his profits" because of the large percentage of the proceeds he will be called upon to turn over to the Treasury in the shape of Excess Profits Tax.

Increase in Shareholders of Record.

An indication of the increase of public interest in stocks in the Middle West is reflected in reports of nine of the big corporations whose shares are widely distributed and are more or less favorites. The number of shareholders of these companies, all industrials, show increases running from 33% to 83% compared with 1917, the average increase in holders being 30½% prior to the recent market activity. This percentage does not reflect the wide distribution of the newer oil companies and promotions.

There has been more or less wild speculation in oil shares and promotions during the last two years all through the Middle West, but this speculation, outside of the immediate oil producing territories, did not involve any extensive expansion in bank loans.

"Trading for the Rise" in Realty.

But not all of the speculative interest is centered in the stock market. The abundance of money and credit in the shape of profits during the war period seems to be seeking an outlet in some speculative form or other, and this is not entirely restricted to the buying of oil stocks or the more seasoned shares listed on the New York Stock Exchange, for there has been a rapid increase in the activity and movement of real estate, both farm and city, during the last six months. Necessarily the restrictions on building during the war time resulted in a shortage in available apartments and office space in nearly all cities in this district. With these restrictions removed interest is reviving in city real estate, although the cost of construction for a time restrained building activities. The feeling, however, is spreading that although construction material costs have increased approximately 60% compared with 1914, the increase in rentals has been exceedingly small, and that the shortage in available dwelling and office space in most of the cities will result in an increase in rents.

High Prices Paid for Farm Acres.

The most striking development, however, in the real estate movement is the activity in farm lands. This movement is commonly referred to as a revival of activity rather than anything bordering upon speculation in farm lands, but there has been injected into the situation a phase which closely resembles some of the features which were conspicuous in previous speculative land movements. In some sections there seems to have been adopted in this land development a brokerage or "option" method of trading. This is indicated by the frequent changes in ownership of the same land at advancing prices. If these operations continue it is feared they may culminate in a rather serious situation around March 1st.

Stimulated by High Produce Prices.

Enormous prices of farm products, however, together with large crop production, have contributed to the wealth of the agricultural sections of the Seventh Federal Reserve District to such an extent that not only is the available land coming on the market quickly snapped up but buyers, and even speculators, are bidding for farms not seeking a purchaser. The consequence is that prices have reached the level, in some instances, of \$700 and \$800 an acre, and there have been instances where strictly farm land has changed hands three times thus far this year at advancing prices. In one section of the district the land activity and advancing prices have reached a point where it is impossible to figure a satisfactory investment return at the existing price per acre on the going cash rental basis of \$12 per annum per acre.

Reinvestment in Cheaper Acres.

There is one reassuring feature in this land activity. The previous owners of land are selling at the high prices and re-investing in neighboring states where land is available at lower prices and has not felt the effect of the speculative movement. This necessarily has an equalizing tendency but it is also stimulating a more general land movement and speculative activity in farm lands.

The Peril of Over-Loaning.

One feature of the development is the effect on the borrowing situation. It is admitted that farm loans are now being made in some parts of one of the states in the Seventh District on a valuation two and one-half times as large as the loaning limit of six years ago. To counteract this tendency, with its perils, some cautious lenders have enforced a rule of fixing a conservative valuation beyond which they will not accept farm liens; but there are other lenders who are encouraging the trading in lands by fixing a much higher lending limit. In one of the Seventh District states about 35% of the farm land deals appear to be for a "quick turnover," according to close students of the situation living in that state. About 15% represents a desire to profit on the rise expected within the option period, and the remainder, or 50% of farm land buyers, aim at occupancy and operation. From this estimate it would seem that there is more or less of the speculative feature in at least half of the land transactions in that state.

A Warning From History.

One of the arguments used by the speculative element which has been gradually absorbed and adopted by the farmer, is based on the experience in more recent years that land prices seldom, if ever, recede, although the demand for farm lands subsides when the price gets out of line with money conditions until there is no market. The disposition is to overlook the experience following the Napoleonic wars, in which, according to French and English economists, English farm lands which had been marked up to extravagant figures in consequence of the sudden rise in grain, meat, and dairy prices slumped after the battle of Waterloo, bringing ruin to the land speculators. Land prices fell 50% or more, even for the most productive and desirable English estates, corresponding with the sharp decline in wheat prices from the high mark of 110s. per quarter in 1810 to 43s. the quarter in 1822. The cause of this was, of course, the decline in incomes and the heavy increase in taxes and other fixed charges.

Crops and General Business Good.

The winter wheat crop, as far as the Seventh Federal Reserve District states are concerned, is coming to the harvest in fine condition. There has been some complaint that the wheat has been blown or rained down by recent storms, but a banner wheat crop is assured and the acreage is very large for this section. General crop conditions are good; corn is looking fairly well, although the crop has been retarded by the wet weather and much of it was planted late. With favorable weather from now on and a late fall the crop should mature in a satisfactory manner.

Selling conditions are improving throughout the district; collections are good; and the banks are indicating a willingness to take care of the financial needs of customers in a satisfactory manner.

Money Demands Strong.

An indication of the trend of the banking situation in Chicago and in the district is found in a comparison of the gross deposits and aggregate loans of the twelve leading Chicago member banks and in the statistical report of the selected banks of the district. The gross deposits of the twelve leading member banks in Chicago aggregated \$991,000,000 on June 17th, an increase of \$31,000,000, compared with the month previous, while the aggregate loans and discounts, exclusive of bonds, amounted to \$634,200,000, an increase of \$33,800,000.

Chicago bank clearings during the first eighteen days of June totalled \$1,463,185,323, an increase of \$552,158,488, compared with a year ago, while the exchanges of twenty-two leading clearing houses, outside of Chicago, for the first fifteen days of June aggregated \$360,255,000, an increase of \$42,890,300, compared with a year ago.

SELECTED MEMBER BANK STATISTICS—SEVENTH DISTRICT (000's Omitted)

	Chicago —44 Member Banks—			Detroit —12 Member Banks—			Other —45 Member Banks—		
	Jan. 3.	May 9.	June 6.	Jan. 3.	May 9.	June 6.	Jan. 3.	May 9.	June 6.
Loans—									
Secured by U. S. war obligations..	\$61,160	\$67,092	\$74,950	\$ 8,720	\$ 9,577	\$10,620	\$13,420	\$14,829	\$16,369
All other loans and investments..	846,008	870,912	887,760	244,085	258,575	261,098	280,939	282,037	291,708
Reserve Balance with Federal									
Reserve Banks	108,825	117,407	113,957	21,886	24,500	23,303	25,241	26,710	26,584
Cash in vault.....	44,555	38,739	40,011	13,821	12,206	12,425	15,811	14,043	14,567
Deposits—									
Net demand	794,398	851,708	830,932	162,048	171,538	174,849	209,707	223,314	228,232
Time	149,859	164,599	164,762	155,896	170,247	173,487	89,211	100,722	97,573
Government	13,962	41,806	98,489	13,964	22,991	15,204	6,189	8,998	15,298
Bills Payable and Rediscounts—									
Collateral Notes	37,735	40,105	37,848	12,154	15,278	22,980	18,380	20,594	20,974
Bills Rediscounted	10,186	2,910	5,215	412	152	811	16,191	3,097	3,355

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO (000's Omitted)

	Receipts				Shipments			
	—April—		—May—		—April—		—May—	
	1919.	1918.	1919.	1918.	1919.	1918.	1919.	1918.
Flour, barrels	908	787	901	659	498	648	497	376
Wheat, bushels	1,117	298	1,727	190	4,710	199	7,760	356
Corn, bushels	6,140	8,493	3,334	5,894	1,715	2,925	2,964	3,203
Oats, bushels	5,537	13,606	5,838	9,030	5,138	10,736	7,032	7,436
Cured Meats, pounds.....	14,788	29,319	19,081	27,301	103,163	62,659	96,561	63,612
Fresh Meats, pounds.....	99,550	96,641	107,948	100,527	152,894	110,157	190,121	139,341
Lard, pounds	18,943	10,938	24,142	10,057	39,808	21,783	51,322	22,404
Cheese, pounds	16,300	11,648	18,961	12,028	9,096	8,297	11,252	7,410
Butter, pounds	19,723	21,039	29,266	20,780	23,019	14,550	31,692	18,992
Eggs, cases	1,357	1,027	1,212	926	436	202	404	194
Hides, pounds	18,530	13,149	20,897	14,495	25,243	12,974	21,153	14,984
Lumber, thousand feet.....	144	267	162	252	59	126	66	121
Potatoes, bushels	1,690	1,218	1,505	1,102	838	469	592	369

LIVE STOCK RECEIPTS AT CHICAGO

Receipts of live stock at Chicago for the four weeks ended June 14, compared with the corresponding period of 1918, are as follows:

	Cattle	Calves	Hogs	Sheep
1919	203,426	59,238	716,481	276,726
1918	213,122	64,535	492,942	212,149
Increase				
*Decrease	*9,696	*5,297	223,539	64,577

BUILDING PERMITS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

City.	—May, 1919—		—May, 1918—		Per Cent. Gain.	Per Cent. Loss.
	No. of Buildings	Estimated Cost	No. of Buildings	Estimated Cost		
Bay City, Mich.....	109	\$ 84,500
Cedar Rapids, Iowa.....	49	147,000	18	\$ 28,000	425	...
Chicago, Ill.	827	7,190,200	379	3,752,500	91	...
Davenport, Iowa	153	275,760	148	262,906	4	...
Decatur, Ill.	76	745,750	106	121,005	516	...
Des Moines, Iowa	128	243,900	15	461,550	...	47
Dubuque, Iowa	29	100,164	49	37,390	167	...
Fort Wayne, Ind.	118	271,478	147	74,850	263	...
Grand Rapids, Mich.....	231	328,624	60	92,712	254	...
Indianapolis, Ind.	800	1,156,091	468	315,522	266	...
Jackson, Mich.	156	260,824	23	32,498	702	...
Lansing, Mich.	198	426,030	389	29,850	1,323	...
Milwaukee, Wis.	610	2,024,640	51	552,934	266	...
Peoria, Ill.	53	128,516	32	122,628	4	...
Saginaw, Mich.	236	467,157	66	22,165	2,007	...
Sioux City, Iowa.....	104	441,900	97	415,360	6	...
South Bend, Ind.	218	1,127,715	66	75,095	140	...
Springfield, Ill.	81	105,748	79	80,500	31	...
Terre Haute, Ind.	75	53,838	...	45,978	17	...

COMPARATIVE STATISTICS OF BUILDING AND ENGINEERING OPERATIONS

Contracts awarded in States north of the Ohio and east of the Missouri Rivers, from January 1 to June 1, 1919.

1919	\$690,726,000	1916	\$456,101,500	1913	\$379,001,500
1918	663,516,000	1915	321,241,100	1912	327,015,000
1917	624,861,000	1914	300,721,000	1911	339,167,313

Contracts awarded in Seventh Federal Reserve District States—Illinois, Indiana, Iowa, Michigan and Wisconsin—also northern Missouri and Eastern Kansas.

1919	\$261,298,000	1916	\$155,956,000	1913	\$79,137,000
1918	143,236,000	1915	86,460,600	1912	49,118,000
1917	244,456,000	1914	75,568,000	1911	71,454,313

Note: Building and Construction statistics compiled by the F. W. Dodge Company.